



DEPARTMENT OF THE NAVY
SPACE AND NAVAL WARFARE SYSTEMS COMMAND
4301 PACIFIC HIGHWAY
SAN DIEGO, CA 92110-3127

SPAWARINST 7600.3A
SPAWAR 01-3
12 March 1998

SPAWAR INSTRUCTION 7600.3A

From: Commander, Space and Naval Warfare Systems Command

Subj: ACCRUAL OF COSTS AT NAVY WORKING CAPITAL FUND (NWCF)
RESEARCH AND DEVELOPMENT (R&D) ACTIVITIES

Ref: (a) DoD FMR 7000.14R
(b) NAVCOMPT Manual Volume 5

Encl: (1) Accrual of Costs


1. Purpose. To provide a uniform policy for accounting for accrual of costs at the Space and Naval Warfare Systems Command (SPAWARSYSCOM) NWCF activities.
2. Cancellation. SPAWARINST 7600.3 of 4 December 1987 is cancelled.
3. Background. Emphasis continues to be placed on reducing unbilled balances at NWCF activities. The recognition and accrual of costs in advance of receipt of vendor's bills for services performed or for materials and equipment delivered and accepted is a basic concept of WCF accounting. Such accruing relates costs to the appropriate accounting period. It also helps reduce unbilled balances, as it allows customers' funds to be billed on the basis of recognized costs and thus reduces outstanding obligations on the NWCF activity's books. Recent internal and external audits have questioned accruals that appear to be for services that had not been provided, equipment items that had not yet been accepted, and for obligations that should have been cancelled. Therefore, caution should be taken to ensure that accruals are recorded at the appropriate time.
4. Policy. References (a) and (b) provide specific policy on cost accruals. Enclosure (1) provides a summary of the policies contained in references (a) and (b).
 - a. Costs are to be accrued by SPAWARSYSCOM NWCF activities based on documented information that services have been performed. While accrual schedules may be established based on planned performance for contracts, validation of actual performance against these schedules should be made at least annually, and adjusted at fiscal year end.
 - b. When contractual effort is completed on cost reimbursable work, care must be taken to insure that accruals are based on the cost of actual work performed. Accruals should also include estimates to cover the estimated cost of outstanding allowable claims.

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(Historically, a large majority of reimbursable contracts will have their residual balances paid to contractors upon completion of an audit by the Defense Contract Audit Agency (DCAA).) Such potential costs should be documented and accrued in the fiscal year in which the contract performance is completed. Estimates to cover allowable outstanding claims should be based on evidence of potential contractor claims obtained from contracting Officers, Contracting Officer's Technical Representatives (COTR's), and/or the DCAA. Excess funds identified in agreements reached between contracting officers and contractors should be removed in a timely manner. (If additional funds are later needed when contracts are finalized, the funding sponsor should be asked for funds.)

5. **Action.** Costs are to be accrued according to the policy in references (a) and (b). Each SPAWARSYSCOM NWCF activity Comptroller shall review accrued costs to ensure compliance with this instruction, and shall correct invalid accruals. Any policy questions should be directed to SPAWARSYSCOM (SPAWAR 01-3).



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ACCRUAL OF COSTSLabor:

Labor costs are recorded for the pay period in which they are incurred or paid. Labor costs are recorded in the year the work is performed. Liabilities will be accrued for annual leave and the DoD contribution for civilian retirement benefits. Costs for awards (such as annual performance appraisals) must be recorded in the pay period the award is paid. If administrative leave is an award option, a liability shall be recorded for that portion of a payout which is due but not yet paid.

References: DOD 7000.14R, Volume 4, Chapters 8 and 10; NAVCOMPT Vol 5, para 051304-2

Material and Supplies:

Costs for materials and supplies issued from inventory or purchased on the bankcard are to be recorded at the time the materials and supplies are issued from inventory or a bankcard receipt is received.

Costs for materials and supplies which have not been inventoried are to be recorded based on inspection reports or other receipt acceptance documents.

Reference: DoD 7000.14R, Vol 4, Chapter 4; NAVCOMPT Vol 5, para 051304-3

Travel:

Per Diem costs are accrued for the month in which incurred based on the estimated per diem amounts. An adjustment will be made for actual per diem costs when the claim is settled. Special care must be taken on travel which extends into the next fiscal year to ensure that estimated costs are accrued to the correct fiscal year and to funds properly available in that year.

Mileage, rental car, and other costs are accrued and charged to the appropriate job order during the month in which travel commences.

Transportation Request (GTR) costs will be costed to the appropriate job order at the time of issue of the GTR. The GTR could be issued in the fiscal year prior to the year actual travel is performed.

References: DoD 7000.14R, Volume 9; NAVCOMPT Vol 5, para 051304-4 and 054501

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Government Bills of Lading:

Costs will be recorded based on the Government Bill of Lading (GBL) documents. These documents should be obtained from the office making or receiving shipments. Copies of the completed GBL attached to the related inspection report will be used as a basis for accruing costs when direct charge to NWCF is made. GBL's that cannot be identified to a particular shipment will be charged to general expense.

References: DoD 7000.14R, Volumes 4, 10 and 11b; NAVCOMPT Vol 5, 051304-5 and 054503

Rentals:

The cost of equipment rentals will be accrued on a monthly basis. Monthly accruals can be made based on the contract (purchase order). However, care should be taken to ensure that any cancellation or modification of the rental agreements are received before making the accruals.

Reference: NAVCOMPT Vol 5, para 051304-7

Facility Projects:

Costs of minor construction, alterations, major maintenance and repairs, equipment installation, and other such facility projects are to be accrued based on documented evidence of the services rendered. This is best accomplished by obtaining information on the estimated percentage of completion of the project from the local Resident Officer in Charge of Construction.

Reference: NAVCOMPT Vol 5, para 051304-9 and 054453

Service Cost Center Charges:

Costs for work actually performed by a Service Cost Center are to be recorded as costs in the year the work is performed. Service Center charges are not to be recorded until the Service Center has actually performed the effort. However, where work by the Service Center extends past a fiscal year end, an accrued cost may be estimated for the units or portion of units actually performed up to the fiscal year end.

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Contractual Services:

Costs of contractual services rendered by either commercial or government organizations, exceeding \$10,000 per contract, will be accrued based on progress reports or other evidence of services rendered. This may be accomplished through the use of documents obtained from the contractor, such as the Contractor Cost/Schedule Status Report, or by other information provided by the Contracting Officer's Technical Representative (COTR) on the COTR's judgment as to the quantity and value of effort completed. Do not use scheduled completion or scheduled delivery information, as these schedules frequently change and are therefore not reliable as an accrual tool. However, information on scheduled events could result in specific queries to determine whether a cost can be legitimately accrued.

NAVMCOMPT Vol 5, para. 054451 specifically provides that:

For recurring type service contracts or contractor effort for technical and general support, progress reports can be based on actual experience or past contracts or technical experience of activity personnel. The basis for these decisions must be documented and retained in the Schedule of Accrual file.

For orders for service under \$10,000 the above procedures may be used. However, the normal procedure is to record costs for these orders upon completion of the order or completion of specific items under the order.

References: DoD 7000.14R, Vol 4 and 10; NAVCOMPT Vol 5, para 051304-8 and 054451

End Item Delivery Contracts:

Where the contract is for delivery of an end item (not a service) and payment to the contractor is only made on completion, costs can not be accrued until receipt and acceptance of the item. Where the terms of the contract call for acceptance at the contractor plant, the accrual would be based upon acceptance only. The clauses of the contract will determine accrual policy. If the contract allows progress payments, the procedures for contractual services apply. If the contract does not allow for progress payments, then completion and acceptance of the deliverable item(s) must be accomplished prior to accrual of the costs.

NOTE: With all contracts that call for acceptance at the contractor's plant, it is important that the contract require that copies of the acceptance documents (and any related Government Bills of Lading) be forwarded to the Comptroller department. Also where the receipt and acceptance is to be at remote locations, such as delivery of parts from the contractor to another activity, arrangements are needed to ensure that the acceptance documents and any related

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GBL's are forwarded expeditiously to the comptroller department in order that the costs may be accrued.

Economy Act Orders (Work Requests) and Project Orders to Other Activities:

The general guideline for accruing costs on Work Requests and Project Orders follows that for contracts of similar type. If an advance copy of a billing is received, the amount is to be recorded as an accounts payable. If the information received is that the work has been done, but not billed, then an accrual up to the amount of costs recorded by the performing activity is in order.

References: DoD 7000.14R, Vol 11A, Chapter 2; NAVCOMPT Vol 5, Chapter 4

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